

ROMANIA
CAPITAL INVESTMENT
PLANNING
A Self Study Guide

Prepared for



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PURPOSE OF THE GUIDE

Local governments in Romania face the challenge of meeting infrastructure needs with limited financial resources. This document, *Capital Investment Planning, a Self-Study Guide*, provides a set of basic capital investment planning tools and techniques to meet the needs of local governments throughout the country. For those local government decision makers (for whom this guide is intended) developing a Capital Investment Plan (CIP) for the first time, this guide offers a step-by-step approach for designing and implementing a capital investment plan. For governments that currently prepare a CIP and would like to improve the process, this publication offers techniques and examples from the process that will be helpful to them.

The steps described are intended to cover the full range of activities that may be undertaken in a capital investment planning process. Smaller governments may want to modify the process for their communities and use only those steps in the process which work well for them. Other larger governments may want to consider adding steps, incrementally taking into account local experiences and their particular needs. Whichever approach is taken, the end result should be a plan that adequately addresses capital needs and that has the support of both elected officials and citizens.

CHAPTER ONE

THE CAPITAL INVESTMENT PROGRAM

Investment needs of Romanian local governments are considerable. Many local governments realize that a large financial investment is required to maintain and upgrade public facilities and infrastructure. Ongoing service delivery to citizens of Romania can be assured only if adequate consideration is given to capital needs. A Capital Investment Plan is a tool that can help local governments in Romania ensure that decisions on facilities and infrastructure projects and funding are made wisely and are well planned.

What is a Capital Investment Plan? Even more basic, what is a capital asset and a capital project? There are many definitions that exist but perhaps the most useful for Romanian local governments are the following. A **capital asset** is defined as a new or rehabilitated physical asset that is non-recurring, has a useful life of more than three to five years and is expensive to purchase. A **capital project** is undertaken to acquire a capital asset. Examples of capital projects include construction of a water treatment or wastewater treatment plant, major street improvements or construction of a solid waste landfill.

A **Capital Investment Plan (CIP)** is a multi year plan - usually four or five years - which is produced by a local government and which identifies capital projects to be funded during this period. The CIP identifies each proposed capital asset to be rehabilitated, renovated or newly constructed, the year in which it will start, the amount (in Lei) expected to be expended on the project and the proposed method of financing the expenditures. This information will most frequently be presented in a summary format including capital expenditures by year, broken down by overall program, by major sectors or by funding source. It is recommended that the Capital Investment Plan be approved each year by the local or judet council.

The CIP should not be confused with the capital investment budget. The **capital investment budget** represents the first year of the capital investment plan. The capital budget authorizes specific projects and appropriates specific funding for those projects. It should be adopted in conjunction with the local government's operating budget and provides the authority to proceed with specific projects. Projects and financing sources listed in the CIP for years other than the first year are not authorized until the annual budget for those years is adopted.

“A Capital Investment Plan (CIP) is a multi year plan - usually four or five years - which is produced by a local government and which identifies capital projects to be funded during this period.”



The Purpose of the CIP

The CIP serves several important functions for local governments in Romania. These include the following:

Provides a comprehensive view of your needs and possibilities: A basic function of the CIP is to bring together all the staff active in investments, including those who work directly in the local or judet council and those working for the local *regii*, to plan and budget for all capital investment needs. Together, they can consider what to buy, what to build, what to repair, when to build or repair and how to finance these costs.

Provides a financial management tool: A key concern in developing the CIP is to prioritize current and future needs to fit within the financial constraints of the local government. Capital investment planning considers not only what a community needs but, equally important, what it can afford. Developing a CIP based on realistic estimates of funding for investments available from all sources is very different than developing a “wish list” of projects that cannot be fully implemented. The CIP puts you in control of all your investment decisions.

Acts as a Reporting Document: The document that is produced following the CIP process provides a clear description of the proposed projects that will be undertaken over the course of the planning period. This document communicates to citizens, businesses and other interested parties the local government’s investment priorities and plans for carrying out projects. The community has a better understanding of the government’s plan for capital spending and can make more informed decisions.

Advantages of Capital Investment Planning

There are many advantages that a local government can gain from developing a CIP. These include the following:

A CIP focuses attention a local government’s goals, needs and financial capability. Through the CIP process, the local authorities and the managers of the *regii* select priority projects that will be consistent with community goals and needs. As part of the process, local government officials, *Regia* staff and citizens consider the current and future outlook for community development and services needed by citizens and the business community. They also consider the best way to finance the investments, taking into account the debt carrying capacity of the local or judet council as well the degree to which some projects can pay for themselves. This process serves as the basis for determining infrastructure needs to be included in the capital program and for balancing community needs with the ability to pay for the projects from all possible sources of financing.



A CIP builds broad scale public awareness of the need for effective local planning.

An important component of the CIP process is to involve citizens in the selection and prioritization of projects. Public participation helps to build support for capital projects as the public gains a better understanding of community needs and of the resources available to meet those needs. Thus, they are more likely to support the program.

A CIP improves cooperation and communication between all local staff involved in the investment program. A capital investment planning process helps to improve cooperation and communication between technical and financial staff in the local and judet council and with *regia* staff. By working together to coordinate and plan for capital investments, the timing, funding and implementation of related projects can be carefully thought through. By coordinating activities capital investments can be organized to best serve the interests of the community as a whole rather than the interests of any one particular group or unit of government.

A CIP can help local governments avoid costly infrastructure mistakes.

The CIP process may help a local government to avoid costly errors resulting in failure to anticipate linkages with other projects or insufficient funding. Because projects are considered over several years rather than a single year, local governments are better able to build a consensus on the need for projects before funds are spent. The CIP also encourages consideration of how different phases of a project must be scheduled given available funding from local sources and from other sources of financing in order to complete the project.

A CIP helps local governments enhance their financial stability.

By anticipating the financial resources that are necessary to pay for capital projects, the CIP can help to promote financial stability within City Hall. Capital projects are prioritized and scheduled to fit within expected funding levels, thus helping local Mayors and finance officers make better informed fiscal decisions.

Steps in the Capital Investment Planning Process

The capital investment planning process involves several key steps. While steps in the process are similar for all sizes of governments the process may vary for the most part depending on the community's size, structure, staff size and fiscal condition. Each local government should adopt the steps in the CIP process which best meet their particular needs.

Capital investment planning is generally organized around five (5) steps which are summarized below. Each of the five steps receives more detailed discussion in the following chapters.



Steps In The CIP Process

Step 1. Getting Started With the CIP Process

- * Design the CIP Process**
- * Develop CIP Policies**

Step 2: Identify Possible CIP Projects

- * Assess Current and Future Demand for Services**
- * Assess Other Capital Investment Needs**
- * Review Previously Approved Projects**

Step 3: Identify all Potential Sources of Financing for Investments

Step 4: Rank and Prioritize Projects

- * The Prioritization Process**
- * The Methodology**
- * Prepare and Adopt a Multi-year CIP**

Step 5: The Monitoring Process



CHAPTER TWO

GETTING STARTED WITH THE CIP PROCESS

Designing the CIP Process

Local governments need to establish a structure within their own organization to manage the CIP process. The organizational responsibilities for the CIP process vary with the needs of the community but it is important to identify who is in charge of the process. Without a clear understanding of who is in charge of the CIP process, the overall process can become disorganized.

One of the first tasks of any local government in Romania interested in developing a CIP process is to appoint a **CIP facilitator**. The facilitator may be an individual or a committee (this guide will use the term *CIP facilitator* to refer to either an individual or a committee of local government staff). The CIP facilitator is responsible for ensuring that the capital process moves forward as scheduled and carries out policies established by the local authorities. Coordination and communication are critical as the CIP process may involve many individuals and groups including government staff, *regii* staff, businessmen and local citizens. The CIP facilitator becomes the key figure in initiating all CIP activities involving key participants in the process.

Responsibilities of the CIP Facilitator

- * **Prepare CIP calendar, forms and instructions**
- * **Assist local and *regii* staff in submitting project proposals**
- * **Create opportunities for citizen involvement**
- * **Communicate CIP process to local and *Regii* staff and citizens**
- * **Evaluate funding options vis a vis submitted projects**
- * **Manage prioritization exercise**
- * **Monitor project implementation**

The CIP facilitator should be an individual or group of individuals familiar with capital project financing and implementation.

Kick-off Meeting: The CIP facilitator should begin the annual CIP development process by holding an initial “kick-off” meeting. The purpose of this meeting is to explain to



participants - most probably local and *regii* staff - the policies and guidelines that will serve as the basis for project requests, to disseminate forms and instructions and to present the CIP schedule and deadlines. All requests for capital projects from departments within the local government or from the *regii* should be submitted to the facilitator to make sure that projects are consistent with established guidelines.

Developing CIP Policies

The CIP facilitator needs to initially: (1) establish what types of capital projects are to be included in the CIP, (2) designate the number of years to be covered by the CIP; (3) develop a calendar identifying key events and deadlines and (4) develop procedures for obtaining citizen input into the overall process. All this should be communicated in a memo prepared by the CIP facilitator to everyone involved in the CIP process, including the local authorities, local and *regii* staff, businesses and local citizens.

It is especially important to establish that policies which guide the CIP process are well integrated with other financial policies such as the operating budget and debt policies. It is imperative that capital investment decisions be consistent with other financial objectives of the local government.

Types of CIP Projects: The types of capital projects that should be included in the CIP need to be distinguished from those that remain part of the operating budget. Each government has some flexibility on how it wants to make this differentiation though some basic guidelines apply.

The local government (represented by the CIP facilitator and/or the local authorities) should establish clear guidelines for differentiating between capital and operating items. The guidelines should be disseminated to *regii* and to local government staff. Using these guidelines the CIP facilitator can address any questions on how to classify an expenditure.

To classify an item as either a capital or operating expenditure the cost of the project and the useful life of the project criteria should be applied simultaneously. Some examples of items that might appear in a CIP vs. an Operating Budget are shown in Table 1.

Table 1
Sample Guide to Distinguishing Capital from Operating Budget Items

Type of Facility	Capital Investment	General Operations and Maintenance
Streets and parkways	<ul style="list-style-type: none"> C Street paving (residential and arterial) C Physical alteration of street capacity or design, including related landscaping 	<ul style="list-style-type: none"> C Paving repair, even though rideability may improve C Coating and other maintenance
Sidewalks	<ul style="list-style-type: none"> C Sidewalk replacement, new sidewalks, sidewalk intersections 	<ul style="list-style-type: none"> C Routine repair/patching
Traffic	<ul style="list-style-type: none"> C New or upgraded signal equipment or other physical improvements that enhance safety or system capabilities 	<ul style="list-style-type: none"> C Equipment repair or replacement to maintain system operations C Lane marking and delineation
Street light fixtures	<ul style="list-style-type: none"> C Conversion of street lights to new luminaries or fixtures 	<ul style="list-style-type: none"> C Replacement or repair of damaged lights
Public buildings	<ul style="list-style-type: none"> C Major remodeling and structural alterations to improve space utilization or capacity C Major replacement or upgrading of design of major building components (roof replacement, major heating system Improvements) C Energy-related physical Improvement programs C New construction 	<ul style="list-style-type: none"> C Preventive maintenance repairs that do not significantly upgrade the structure or increase its previously estimated useful life (e.g., minor roof repair)



Table 1
Sample Guide to Distinguishing Capital from Operating Budget Items

Type of Facility	Capital Investment	General Operations and Maintenance
Water treatment	<ul style="list-style-type: none"> C Rehabilitation of major treatment facility components to extend useful life C Reservoir connections, new sludge beds, other projects to upgrade treatment capacity, flexibility or quality 	<ul style="list-style-type: none"> C General repair or maintenance or equipment or facilities to continue operations (e.g., wall and ceiling repair, sludge bed cleaning)
Water and sewer mains	<ul style="list-style-type: none"> C Large water mains (replacement) C Sewer separation (modifications) C Correction of low-pressure areas (small mains) C Other sewer or water main replacement in conjunction with street paving C Gates and manholes to improve system flexibility 	<ul style="list-style-type: none"> C Repair of isolated sections of broken or collapsed sewer or water mains, sewer outlets, and repair fixtures as needed to maintain operations

Source: Capital Improvement Programming. Government Finance Officers Association. 1996
Years Covered by the CIP:

The capital planning period refers to the number of years to be included in the capital improvement plan - how many years into the future the CIP will encompass. Typically projects scheduled in the first one or two years can be rather easily evaluated in terms of their scope, cost, expenditure schedule and available funding. Beyond that time frame it becomes increasingly difficult to estimate costs and funding sources as the investment approval and financing process still remains highly centralized.

To include in the CIP only projects that are expected to begin in the next year or two would however cut off analysis of certain long term projects that may be phased in over more than two years. The long term focus forces all those involved in the process to give some thought to future needs rather than simply focusing on immediate concerns. This, in turn, contributes to developing a consensus on capital needs and priorities so that projects can be initiated on schedule to meet service demands. Local governments will also need to consider a longer planning horizon if they wish to access credit on the capital markets to



meet infrastructure needs. Lenders will clearly want to see a long term focus - one of the key factors in the ability of local governments to borrow for the purposes specified.

In most CIP processes, four or five years is an appropriate time frame. The first year serves as the local government's capital budget while the remaining three or four years serve as planning years. In order to maintain the desired capital planning period the CIP should be updated every year by adding a new year to the end of the program along with a list of projects to be initiated in that year.

Developing a CIP Calendar: To coordinate various tasks and responsibilities, a CIP calendar should be prepared by the CIP facilitator early in the process. The calendar is a tool that identifies "who does what and when" throughout the CIP process. It guides City

Hall and *Regii* staff and citizens through the process and lets all participants know when deadlines occur and when decisions are to be made along the way.

“Local authorities may also want to institute a process in which a group or groups of citizens are involved in helping to prioritize projects and actively take part in the CIP process in order to determine citizen priorities before the capital program and budget are actually

Involving Citizens in the CIP Process: Capital investment planning affords local governments a key opportunity to involve citizens in planning for and prioritizing capital projects. The importance of actively engaging citizens in the CIP process cannot be overstated.

One of the most widely used approaches is to involve citizens in a public hearing. A formal public hearing held prior to adoption of the CIP by the local authorities permits citizens to ask questions, to air their concerns and to have input into the overall process before the program is finalized. Local authorities may also want to institute a process in which a group or groups of citizens are involved in helping to prioritize projects and actively take part in the CIP process in order to determine citizen priorities before the capital program and budget are actually developed. Involving citizens in participating in the prioritizing exercises that are part of the CIP process provides a useful opportunity to have an open and honest dialogue with citizens about the local government's key issues and concerns.



CHAPTER 3

IDENTIFYING POSSIBLE CIP PROJECTS

This chapter identifies the process that local and *regii* staff can take to identify projects to include in the CIP. When preparing projects for inclusion in the CIP both new projects and previously approved and existing projects that will be continued on into the new budget year are considered. Projects will be proposed and submitted to the CIP facilitator either by local or *regii* staff, depending on the organization that has responsibility for implementing and operating the proposed project.

Assess Current Infrastructure Conditions and Future Demand for Services As a first step, local staff will need to assess the condition of the infrastructure facilities and equipment for which they are currently responsible. For this they will need to know the age, condition, maintenance history and estimated replacement costs of existing facilities and equipment. It is important to keep track of the quality and condition of the community's physical infrastructure. A capital inventory that tracks maintenance history can be a useful aid. Documenting the repair history on the physical assets provides information on the effectiveness of past repairs. This information can be useful in assessing whether future repairs are going to be effective. For example, a local government may find that a water line only needs modest repair for the first 10 years but will require more frequent repair as time goes on. This information would be useful when deciding whether to undertake a major overhaul or continue repairing the line.

The staff also will need to develop estimates of future demand for services and of the capital assets required to meet those needs. They must determine if the factors that determine the need for services will grow, remain stable or diminish. For this analysis it is important to have or develop estimates for the planning period of population, of the local economy and of more specific factors related to infrastructure services, such as the number of vehicles in circulation. It also is important to determine whether consumption patterns will change. For example, a change in income of households might lead to an increase in demand for water.

With this information in hand the technical staff need to make a judgement whether to repair, rehabilitate, expand or replace existing infrastructure facilities and equipment. This analysis will generate many of the projects to include in the capital investment plan.

Assess Other Capital Investment Needs: Aside from infrastructure projects it is likely that there will be other capital investment needs to be considered in the CIP development process. These might include general urban development or redevelopment projects, such



as new recreation facilities or a parking garage or new public housing. It also might include investment needs of the local government itself, such as new office space or major equipment. The analysis of these projects will be similar to that of the infrastructure projects. Where existing facilities or equipment are involved the staff should consider whether they need to be repaired, overhauled, expanded or replaced. The information on future conditions used to assess the need for the projects should be consistent with that used in the analysis of future service needs.

Review Previously Approved Projects: Projects approved at some time in the past should not be included in the CIP development process automatically. There are generally three types of previously approved projects: those for which construction has begun that will continue into the coming year, projects that have approved funding but have not begun and projects that were never funded. Responsible staff should first determine whether all these projects merit further consideration in light of new policy guidance and current assessment of needs. Those projects that are to be continued should be resubmitted along with new project requests.

Prioritize Projects Before Submitting Them To The CIP Facilitator The responsible staff should consider ranking all their own projects before they submit them to the CIP facilitator. Within the technical department of the local government or within the *regii*, the staff should first compile all possible projects, including both existing and new projects, and then rank them according to a set of criteria. They should use the same criteria that will be used later to rank projects for the CIP as a whole. (See Chapter 5) This need not be a formal requirement of the CIP process, but it certainly will help the staff confirm that their projects have been carefully thought through and that their proposals deserve to be included in the CIP. It also will save time and effort later in the development of the CIP.

Summarize Information on Proposed Projects The CIP facilitator may want to require that the technical staff present their projects using a standardized form. This form should include: 1) the title of the asset; 2) the description and scope of the project; 3) the justification for the project; 4) the schedule of major milestones and 5) the estimated capital and operating and maintenance costs of the project spread over 3-5 years. Table 2 provides an example of such a form and of the type of information it should include.

In addition, the CIP facilitator may want to request additional information for previously approved capital projects that have approved funding and that might already be under construction. Table 3 provides an example of such a form.

These forms will summarize the information that the CIP facilitator needs for the subsequent steps in the CIP development process. To ensure that the information is correct and relevant the facilitator should provide clear instructions with the forms. It is



possible that there may be a need for more detailed information for projects that would begin in the first year of the planning period and for highly visible, costly or controversial projects.



Table 2
Proposed Capital Improvement Projects

Project Category	Project Number and Title	Priority
Water	5-133 Transmission (Partial)	A
<p>Description</p> <p>This project is for the construction of approximately 8,000 meters of water main from the City Pumping Station to the City Center. The project will take 2 years to construct.</p>		
<p>Justification</p> <p>This project provides increased flows to the City Pumping Station as the need to satisfy increases in the projected water demands placed on this facility. Scheduling indicates construction of this project should be accomplished by 2002. This project will provide minimum standard pressures of 40 psi during peak demand periods throughout the city. The construction of this line will enhance system flexibility, reliability, and alleviate suction pressure problems at the current facility. Without this project, modifications to the City Pumping Station to increase pumping capacity could not be full utilized and residents would be expected to experience low pressures (less than 40 psi) and reduced fire protection by 2002.</p>		
<p>Cost Estimate (Annual)</p> <p>The project will cost 2000.0 million Lei to be spread evenly between Years 1 and 2. Operating cost will be minimal once the construction is complete.</p>		



Table 3
Status of Previously Approved Capital Projects

Date prepared: _____
Prepared by: _____
Date of last report: _____

Page ____ of ____

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Project Title	FY* First Authorized	Project Status	Completion Date	Total Funding	Expenditures to Date	Available Funding	Comments

Instructions

- 1) List project title and reference number in Column 1.
- 2) Identify the fiscal year that the project was first authorized in Column 2.
- 3) Identify the status of the project in Column 3, using the following abbreviations: COM = Completed, TBC = To Be Continued, CAN = Canceled.
- 4) Indicate the actual completion date for projects designated as COM, or the expected completion date for projects designated as TBC in Column 4.

- 5) List the total funds appropriated to date for the project in Column 5.
 - 6) List the total funds expended to date for the project in Column 6.
 - 7) List the total unexpected funds for the project in Column 7.
 - 8) Indicate any unusual or unanticipated factors relating to the project, such as significant changes in design, scheduling, or funding requirements in Column 8.
- * FY = Fiscal Year

CHAPTER FOUR

EVALUATING THE LOCAL GOVERNMENT'S ABILITY TO FUND PROJECTS

Potential Sources of Financing for Capital Projects

The investment needs of Romanian local governments are substantial. Local and judet councils have been given major responsibility for services including water provision, wastewater treatment, district heating, solid waste management and repair and maintenance of local and regional roadways. Capital facilities are costly to acquire and/or rehabilitate and careful planning is needed in order to pay for capital projects. A financial plan that takes into account projected sources and uses of funds is an essential component of preparing a capital investment plan. Without a commitment to sound financial planning the capital program will become nothing more than a wish list of projects that cannot be funded.

Since 1992, local investments have been financed essentially through non-targeted investment subsidies from the State budget. The Law on Local Public Finances did away with subsidies from the State budget specifically for investments at the local level. The only such funding that remains is for financing from foreign donor programs that comes through the State budget. The new law provides expanded authority to local governments to access the credit market but makes it clear that they must do so without central government guarantees. The net effect of all the changes in legislation is that local and judet councils now have the authority and the responsibility to decide on their own what level of funding they can and will provide for capital investments. This means that local governments need to identify all the possible sources of financing for their investment needs and assess the associated risks.

There are various sources of financing to consider:

- The revenues of the local and judet council that remain after paying for local operating expenses
- Borrowing backed by the revenues of the local or judet council itself
- Fees paid by the local consumers of services provided by the local or judet council directly or through a local *regia*, such as those for water, heating or public transport
- Borrowing backed by the fees paid for services
- Special programs of the Government of Romania or of foreign donors

In the case of special programs of the Government or of foreign donors the amount of financing that might be available and the projects that are eligible will be determined by the rules and procedures of the programs. For all the other sources listed above, it is entirely



up to the local government to determine the level of financing and to select the projects. There are two types of analysis involved in making this determination. They are:

- **Debt carrying capacity analysis** to determine how much the local or judet council can and should finance from its revenues or from debt backed by those revenues
- **Project financial analysis** to determine how much can and should be financed from fees generated by the project once completed or from debt backed by those revenues

In the case of funds provided from the revenues of the local or judet council itself, any project that is of local interest can be financed. This often is referred to as **general obligation financing**. Funding provided the fees paid for specific services will be limited to financing projects related exclusively to that service. This often is referred to as **project financing**.

Analyzing the Financing Options

In analyzing the options for financing your CIP, you should look first at the use of project financing. This applies to all projects that will generate revenues from service fees once completed or that are to be implemented by a *regia* or local company that generates fees from the same service. For example, project financing should be the first option to consider for a water or waste water project. The financial analysis in this case would look at the fees generated by the project itself and in general at all fees paid for all local water or waste water services. Some projects will be totally self-financing. Others will be only partially self-financing. In preparing a project financial analysis you need to consider the following elements, among others:

- Make sure you have complete estimates of the cost of the project and of the subsequent costs for operation and maintenance of the completed project. If there is more than one technical option (e.g. overhaul versus replacement) consider the impact of each option on the financial feasibility of the project. Also, try to determine if the size of the project is consistent with the expected demand or need. A project that is over dimensioned might not be feasible, but if it is redesigned to focus more narrowly on need or demand it might be feasible.
- Consider very carefully how much you can really charge for the service that the project will provide once it has been completed. Be careful not to assume that you will be able to charge whatever level fee is necessary to ensure that the project is self-financing. Look at increases in other local taxes and fees that will have an



impact on the households and businesses in your community. Take into account that not everyone will pay on time or at all.

- Look for possible savings in the current operating and maintenance costs of the *regia* or other local company that manage local services. You may be able to free up part of their current revenues to finance at least part of the cost of the project.

Government or foreign donor programs are the next option you may want to explore. The project financial analyses probably also will be useful to you in exploring financing from foreign donor programs as many of these programs focus on projects that are at least partially self-financing.

After having determined which projects you can finance in part or totally from the revenues generated by the project itself and/or from Government or foreign donor programs, you should turn next to the financing that may be available from the local or judet council itself. In preparing the debt carrying capacity analysis you should consider the following:

- In its simplest expression, your debt carrying capacity is determined by how much you can set aside from your recurring revenues each year over the next several years in order to make annual debt service payments. In Romania today, recurring or current revenues include the funds you obtain from local taxes, shared wage taxes, and the equalization grants provided from the State budget. By law in Romania today you may not use more than 20% of your recurring revenues to pay interest and principle on outstanding loans.
- Your debt carrying capacity is affected by your willingness and ability to limit funding for services for your community so that you can pay for investments and for credit to finance those investments. Remember that you should plan to pay the annual debt service from your recurring revenues. These are the same revenues that pay for the services that you provide to your community, such as maintenance of streets, schools and parks. These also are the revenues you use to pay your own administrative costs, such as the salaries of your employees.
- Your debt carrying capacity also is affected by your willingness and ability to accept the costs and risks inherent to all borrowing.
- There is no simple mathematical formula that will calculate your debt carrying capacity. There are quantitative methods that can help you in the process. However, eventually you will have to make difficult choices that depend largely on your judgement.



- A final note of caution: You may be asked by a lender or an investor to guarantee credit financing provided to other institutions, such as the company or regia that provides infrastructure services in your community. This guarantee will reduce your debt carrying capacity in one of several ways. Lenders will take the guarantee into account when they decide how much they think you can afford to borrow. Also, if the borrower fails to pay and your guarantee becomes effective, this will count against the 20% limit established by law.

For further guidance on preparing a debt carrying capacity analysis please refer to the companion handbook on that subject.

At this point in the CIP development process you should have:

- A list of those projects that are totally or partially self-financing
- Information on Government or donor programs that finance some of the projects
- An estimate of the level of capital financing you can provide from the revenues of the local or judet council itself or from debt backed by those revenues

It is very likely that the possible avenues of financing fall far short of the total cost of the projects presented for consideration in the CIP. The next step is to figure out which projects you will actually want to fund within the limits of available sources. That is the subject of the next chapter.

CHAPTER FIVE

RANKING AND PRIORITIZING PROJECTS

To this point in the self study guide we have discussed the initial steps that Romanian local governments can take to implement a CIP process - how governments can organize themselves to orchestrate the capital investment planning process and how local governments and *regii* alike can identify and finance possible projects for inclusion in the CIP.

This chapter describes a methodology which can guide local government decision makers in selecting projects they will want to include as priorities in the CIP within the limits of available funding. This assumes that the this funding is less than the cost of the capital investment projects identified by the local government. Local officials have to choose among a wide array of potential projects, all of which have possible merit. Capital projects can support different community goals and different constituents within a community. Local governments need to sort through and select only those projects which they can actually finance and implement while at the same time balancing community goals and objectives.

The Methodology

Table 4 presents an example of the evaluation criteria by which capital projects can be scored. It uses eleven social, economic, financial, public health and safety criteria to evaluate the relative priority of the projects included in the CIP process. Note that for each of the eleven factors there is a suggested range of points that reflect the relative importance of that factor. Some have a range from 0 to 5 points, while others range from 0 to 10 points, for example). Total scores are assigned to each project following careful review and analysis of each of the selected criteria. In the case of Table 4, the maximum score would be 70 points. You should feel free to adapt the list of criteria in Table 4 and their relative weight in the overall score to reflect your own needs and priorities. This is a simple, practical and workable ranking process that helps decision makers select priority projects. It is designed to involve those individuals most affected by the implementation of the projects on the CIP list.

Table 5 illustrates the use of the evaluation criteria using actual projects and actual scoring data from a local government in Romania. You will note that seven capital projects were scored with respect to each criteria. These scores are then summed and used to rank projects.



Table 4
Criteria for Prioritization

Total Points = 70

Public Health and Safety

- | | |
|---|-------------------|
| 1. The project corrects a serious health and safety hazard | <i>0-5 points</i> |
| 2. The project reduces possible number of deaths, injuries or illness | <i>0-5 points</i> |

Environmental Quality

- | | |
|--|--------------------|
| 3. The project improves/reduces environmental (air, noise, water or solid waste) pollution within the city | <i>0-10 points</i> |
|--|--------------------|

Quality of Life

- | | |
|--|--------------------|
| 4. The project positively improves the quality of life of large numbers of local citizens; the appearance of neighborhood is improved. | <i>0-10 points</i> |
|--|--------------------|

Economic Development

- | | |
|---|-------------------|
| 5. The project will encourage new capital investment in the city and enhance the city's overall economic development activities | <i>0-5 points</i> |
| 6. The project will create job opportunities for city residents during construction and operation | <i>0-5 points</i> |

Financial

- | | |
|---|-------------------|
| 7. The project, if implemented, will result in decreased operations and maintenance costs at the facility over the long run | <i>0-5 points</i> |
| 8. The project's revenues will be at least equal to or greater than project expenditures once the project is implemented | <i>0-5 points</i> |

Documentation

- | | |
|--|--------------------|
| 9. The project's technical and financial documentation is well thought out, completed and approved | <i>0-10 points</i> |
|--|--------------------|

Phasing

- | | |
|---|-------------------|
| 10. The project will implement an on-going phased project; project which are well-organized and phased appropriately will be given priority | <i>0-5 points</i> |
|---|-------------------|

Inter jurisdictional Effects

- | | |
|---|-------------------|
| 11. The project will improved the existing relationship with jurisdictions outside of the city limits | <i>0-5 points</i> |
|---|-------------------|



Table 6
The Priority List of a Romanian Regia

Projects

1. Rehabilitation of the wastewater plant
2. Rehabilitation of the water distribution network
3. Rehabilitation of the water treatment plant
4. Modernizing the heating network
5. Modernizing the solid waste collection and transportation up to European standards
6. Rehabilitation of the sewerage network
7. Buying new trolleys for center of the city

Scoring by Evaluation Criteria

Project #	1	2	3	4	5	6	7	8	9	10	11	Total
1.	5	5	5	4	5	2	2	5	5	4	5	47
2.	5	5	1	10	5	0	2	2	5	3	3	50
3.	5	5	5	10	3	2	3	3	5	4	5	50
4.	5	1	3	10	2	2	5	5	10	5	3	51
5.	5	5	10	5	1	1	0	0	5	2	3	37
6.	5	5	10	3	3	3	0	0	4	5	5	45
7.	3	1	10	10	5	5	5	5	7	3	5	59

FINAL LIST OF PRIORITIES

- | | |
|--|----|
| 1. Transportation - trolleys | 59 |
| 2. Heating network | 51 |
| 3. Water distribution network
and Water treatment plant | 50 |
| 4. Rehabilitation of wastewater plant | 47 |
| 5. Rehabilitation of the sewage network | 45 |
| 6. Solid waste collection and transportation | 37 |



The Prioritization Process

Once CIP facilitator and the local technical and financial staff have identified and organized the range of possible capital projects and available funding sources, the next step is to list the projects in order of priority, starting with those that have the highest priority. This can be done in a meeting involving the local and regional staff and possibly Mayor or judet council president. The objective of the meeting is to reach agreement on a final list of prioritized projects for the CIP.

Conducting a Prioritization Meeting: At the outset of the “prioritization” meeting the CIP facilitator should clearly describe the overall scope, content, goals and objectives of the meeting. The CIP facilitator should review with the participants the process that has taken place to date and the schedule for completion of the CIP process. The meeting should include no more than 10-12 key individuals. Initially, formal presentations should be made by responsible technical staff which describe the scope and content of each project, the rationale as to why each project was selected for inclusion on this initial list and the schedule of activities that need to take place to implement the project.

The CIP facilitator should then describe the methodology used to prioritize capital projects and ask if there are any questions about the process. Once this is completed and everyone understands the process, then each participant should be handed a packet of evaluation sheets listing the eleven criteria used in the prioritization exercise (see Table 4) so that each project can be ranked independently. The CIP facilitator should then announce the first project to be evaluated according to the criteria. The CIP facilitator announces each factor separately (e.g., public health and safety, environmental quality, etc.) and participants then score them accordingly. The CIP facilitator then asks each participant to announce his/her individual and total scores for each evaluation criteria for this project. Total combined scores of all participants are then summed and an average score is assigned to each project. Participants should also be given the opportunity to share with others in the exercise their rationale for assigning a particular score to a particular project. For each subsequent project the same process should be applied. Once all the projects have been scored, total scores are tallied for each project and summarized by the CIP facilitator who then announces the scoring results to all the participants. The CIP facilitator should then go back and review with the full group what has transpired and ask for opinions about how the process worked and what the results imply. Questions, comments and concerns should be recorded by the CIP facilitator.

Citizen Participation: One way or another all local governments should attempt to engage community residents in the capital projects prioritization and selection process. By doing so, citizens have an opportunity to participate in the governance process and local authorities and staff can listen to issues on the minds of their constituents.



Some governments may choose to include businesses and citizen groups in the process alongside their own staff, thereby simultaneously involving them in the prioritization exercise so that all points of view can be elicited at the same time. Other governments may choose to work directly with citizens and/or local businesses separately to help prioritize and score capital projects. Local governments can develop a process for conducting a public meeting with citizens in which project are scored and the resulting information is fed into the overall process. The CIP facilitator can place announcements about the capital investment planning meeting in local newspapers or on local radio programs announcing the objective of the meeting, the time, place and issues they wish to discuss.

Role of the CIP Facilitator Following the “Prioritization” Exercise: Once the prioritization exercise has been completed with participation of local and *regii* staff (and possibly with local citizens), the CIP facilitator will then need to work with the Mayor or judet council President to prepare the overall CIP program. This process involves looking at the overall program in its entirety, assessing how well the selection and evaluation criteria process worked and assembling the final list of projects. It is also the time when local officials attempt to tie specific projects to specific funding sources since this will become the adopted capital budget for the coming year.

In addressing the overall portfolio of key projects, the CIP facilitator and other decision makers need to ask some fairly important questions:

- Is the portfolio of priority projects well balanced and meeting citizens’ needs?
- Does the portfolio generally conform with the community’s goals and objectives?
- Is the portfolio benefitting one group in the community more than another or are all citizens generally being served by adopting this capital plan?
- Can this portfolio realistically be implemented and do we understand the cumulative scope and timing of the work that will be required to rehabilitate, modernize, expand or construct new projects?

The CIP facilitator may want to summarize in writing the selection process and generally present this as part of the overall CIP documentation.

Preparing and Adopting the Multi-year CIP

The CIP facilitator will prepare a document which describes the selected projects and communicates to local authorities, to local and *Regii* staff and to citizens essential information about the process. The document should enhance the reader’s understanding



of the CIP process and the rationale for project selection. The multi-year CIP document should include:

- A brief (4-5 page) narrative that describes the overall CIP process and the results of the prioritization exercise
- A brief overview of the selected projects and their funding mechanisms
- A summary description of each selected project and
- Any other pertinent information that may educate the reader or is necessary to fulfill specific information needs of other parties interested in the CIP, such as the Government or foreign

Table 6 provides an example of a summary table that may help provide an overview of the CIP. Table 7 provides an example of a narrative summary of priority projects.

This multi-year CIP document will be presented by the Mayor or Judet Council President to their council for adoption. The document should provide all the necessary documentation needed for decision makers to make a determination that the process and the projects selected conform to local and national policies.